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Financial Outlook

SPRING 2021

Focus on the Basics

It's easy to become overwhelmed when faced with all the decisions that need to be made to ensure you select appropriate investments to help pursue your long-term investment goals. How do you choose the right combination of investments to help you work toward a goal that may be decades away? The answer is to focus on the basics. Make sure you are getting these fundamentals right:

❍ **Don't wait — invest now.** To put the power of compounding to work for you, start investing now. It's easy to put off investing, thinking you'll have more money or more time at some point in the future. Typically, however, you'll be better off saving less now than waiting and saving more later. Consider the savings habits of a 20-year-old couple. The wife starts contributing $2,000 per year to a tax-deferred investment, such as a 401(k) plan, when she is 20. After 10 years, she decides to stop investing and let her money grow until retirement. She has invested a total of $20,000. Her husband starts investing when she stops, investing $2,000 per year from the time he is 30 until he retires at age 65. Thus, he saves every year for 35 years, making a total contribution of $70,000 — $50,000 more than his wife. If they both earn 8% compounded annually, who will have the larger potential balance at age 65? Time and compounding of earnings favor the wife. Before paying any taxes, her balance would equal $462,649, while her

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Financial Harmony in Marriage

Financial stress in relationships can come from many sources, but one of the most difficult is when one spouse is a spender and the other a saver. We enter marriage with attitudes toward money deeply engrained in our psyche, and those attitudes are not easily changed. But don't despair — if you find yourself engaged in a struggle with a spouse who is your opposite when it comes to saving and spending, there are steps you can take to achieve balance and harmony.

1. Agree to be a team. You got married to spend your lives together, so it shouldn't be difficult to start with this understanding, even if it may seem hard to reconcile with your money behavior. To be a team, you have to act like a team, and that starts by giving up individual possessiveness about money: there's no "your money" and "my money." It needs to be "our money."

2. Agree on your goals. Start your teamwork by articulating your long-term goals; they're the most important and the easiest to agree upon. Long-term goals might include living the lifestyle you want in retirement and educating your children. Be sure to be specific. A goal isn't a dream, like "a comfortable retirement" or "a good school for the kids." Articulating specific long-term goals involves knowing how much those dreams are going to cost and precisely when they will occur. You need dates and dollar figures.

Once you've reached an agreement on your long-term goals, try to set out the same kind of specific plans for your intermediate- and short-term goals, like your next vacation and your savings and retirement account balances for the end of the year.

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Focus

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husband's balance would be $372,204. *(This example is provided for illustrative purposes only and is not intended to project the performance of a specific investment.)*

- **Live below your means so you can invest more.** It's a basic fact that most people have trouble coming to grips with — the amount of money you have left over for investing is a direct result of your lifestyle. Don't have any money left over for investing? Ruthlessly cut your living expenses — dine out less often, stay home rather than going away for vacation, rent a movie rather than going to the theater, cut out morning stops for coffee. Redirect all those reductions to investments. This should help significantly with your retirement. First, you'll be saving much more for that goal. Second, you'll be living on less than you're earning, so you'll need less for retirement.
- **Maintain reasonable return expectations.** When developing your financial goals, you'll typically decide how much you need, when you'll need the money, and how much you'll earn on those savings. Those factors will determine how much you need to save on an annual basis to reach your goals. The higher your expected return on your investments, the less you need to save every year. However, if your assumed rate of return is significantly higher than your actual rate of return, you won't reach your goals. Thus, it's important to come up with reasonable return expectations. While past returns aren't a guarantee of future returns, you'll want to start by reviewing historical rates of return for investments you're interested in. You can then adjust those returns based on your expectations for the future. Assessing your progress every year will allow you to make adjustments along the way. If your return is lower than expected, you may need to increase savings or change investment allocations.

- **Understand that risk can't be totally avoided.** All investments are subject to different types of risk, which can affect the investment's return. Cash is primarily affected by purchasing-power risk, or the risk that its purchasing power will decrease due to inflation. Bonds are subject to interest-rate risk, or the risk that interest rates will rise and cause the bond's value to decrease, and default risk, or the risk that the issuer will not repay the bond. Stocks are primarily subject to nonmarket risk, or the risk that events specific to a company or its industry will adversely affect a stock's price, and market risk, or the risk that a stock will be affected by overall stock market movements. These risks make some investments more suitable for longer investment periods and others more suitable for shorter investment periods.
- **Diversify your portfolio.** When stocks had above-average returns for an extended period, diversification acted as a drag on total return. By definition, allocating anything other than all of your portfolio to the best-performing asset lowers your return. But when stocks decline substantially, the disadvantage of investing only in one asset class becomes apparent. Typically, you do not know which asset class will perform best on a year-to-year basis. Diversification is a defensive strategy — it helps protect your portfolio during market downturns and reduce your portfolio's volatility. Diversify your investment portfolio among a variety of investment categories, such as stocks, bonds, cash, real estate, and others. Also diversify within investment categories.
- **Only invest in the stock market for the long term.** Stocks should only be considered by investors with an investment timeframe of at least five years. Remaining in the market over the long term reduces the risk of receiving a lower return than you expected.
- **Don't try to time the market.** Timing the market is a difficult strategy to accomplish successfully since so many factors affect it. Remember that most people, including professionals, have difficulty timing the market with any degree of accuracy. Significant market gains can occur in a matter of days, making it risky to be out of the market for any length of time. Instead of timing the market, concentrate on setting an investment program that works in all market environments and you can stick with in good and bad times.
- **Pay attention to taxes.** Taxes are probably your portfolio's largest expense. Using strategies that defer income for as long as possible can make a substantial difference in the ultimate size of your portfolio. Some strategies to consider include utilizing tax-deferred investment vehicles (such as 401(k) plans and individual retirement accounts), minimizing portfolio turnover, selling investments with losses to offset gains, and placing assets generating ordinary income or that you want to trade frequently in your tax-deferred accounts.

If you need help with investing, please call. ❍❍❍

Harmony

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3. Practice full disclosure. Being a team means each of you is empowered to act on behalf of the other with implicit approval. This requires that each of you has full command of the facts: how much money you make, how much you owe, and how much you spend. Share the balances in any individual accounts you may hold, like checking and credit cards. You need to be completely honest with each other, even if you make a mistake now and then.

4. Budget and pay bills together. Create a monthly budget (spreadsheets are ideal for this) that compares the total of your bills and expected out-of-pocket expenses with every penny of incoming and available cash. Include an itemized list of your debts and scheduled payment amounts, as well as your asset accounts and their balances.

Thoroughness is a key determinant of your success, so don't overlook anything, especially significant one-time expenses like gifts or big nights out. Create a catch-all category called "miscellaneous" for the little things you might forget — or those that are small and hard to pin down.

Pay your bills at the same time in the same place, and then update your budget spreadsheet as you do. This means revisiting your monthly budget at least once a month. Print out two copies and keep them somewhere you can easily glance at should the need arise.

5. Update your checkbook(s). One way spenders rationalize their behavior is by keeping themselves in the dark about how much they really have to spend. If you're going to be faithful to the budgeting process, you have to keep careful track of your cash on hand and that means being sure your checkbook entries are up to date.

6. Agree on spending rules. You both need to agree on how much you can spend on purchases without consulting each other. Beyond this preset amount, you should talk about the purchase in advance and adjust your budget accordingly.

7. Create a financial plan. Everybody should have a professionally prepared plan, but for couples with polarized spending and saving habits, it's especially important. A professional can provide the expertise and tools you may lack. He/she will also serve as an impartial third party to help you defuse your money debates.

For help creating that financial plan or putting any of the other financial steps into practice, please call. ❍❍❍

Harness the Power of Compounding

One simple and powerful concept can contribute more to creating wealth for the average investor than perhaps any other: the power of compounding.

The secret to the power of compounding is that instead of growing arithmetically it grows *exponentially*, as long as you follow one very important step: instead of spending the money your money makes, you reinvest all of it. It works like this: say you invest in a bond that pays 5% a year with $10,000. At the end of 12 months, the bond matures with a value of $10,500. If you spend the $500, you're left with $10,000 to roll over into another bond at the same rate. But if you roll over the entire amount, at the end of the year, that $10,500 bond will have earned $530 and grown in value to $11,030. In the third year, rolled over at 5% again, earns $550.

Zoom forward 20 years, with the bond earning 5% every year. By rolling over principal and interest, your investment will have more than doubled in value to $26,530, without ever contributing any more money. You collected $6,350 more in interest than the saver who spent all the interest he/she earned each year.

Although the advantage of compound returns was illustrated with an interest-bearing investment, the same applies to a stock portfolio by reinvesting any dividends or realized capital gains. But when it comes to investments like stocks, whose prices fluctuate, it's essential to avoid large losses if you want to maximize the power of compounding.

Whenever an investment position loses money, you need a larger gain than the percentage lost to return to its prior value. The chart below makes this clear:

% Loss	% gain needed to recover loss
1%	1.01%
5%	5.26%
10%	11.11%
20%	25.00%
30%	42.86%
50%	100.00%

When an investment (or a portfolio) loses less than 5% in a year, it doesn't take very long to recover your losses, because stocks return on average between 9% and 10% a year. As a result, you can expect to wait for as long as several years or even more to recover from losses that are greater than 20%. And since compounding gathers power over time, such delays can be costly.

What's more, big losses can tempt you to try to recover more quickly by choosing higher-risk investments, which exposes you to the possibility of further and deeper losses. The moral of the story is that the less volatile your portfolio returns are over time, the more you will benefit from the power of compounding through the reinvestment of your returns. ❍❍❍

Financial Data

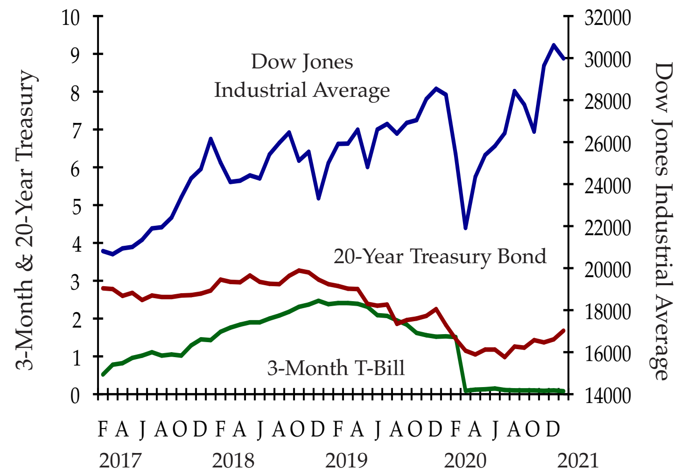
Indicator	Nov-20	Dec-20	Jan-21	Dec-19	Jan-20
	Month-end				
Prime rate	3.25	3.25	3.25	4.75	4.75
Money market rate	0.21	0.20	0.10	0.58	0.50
3-month T-bill yield	0.09	0.10	0.08	1.52	1.53
20-year T-bond yield	1.37	1.45	1.68	2.25	1.83
Dow Jones Corp.	2.01	1.93	2.04	2.84	2.59
30-year fixed mortgage	1.89	1.91	1.97	3.31	2.95
GDP (adj. annual rate)#	-31.40	+33.40	+4.00	+2.10	+2.10

Indicator	Month-end Nov-20	Month-end Dec-20	Month-end Jan-21	% Change YTD	% Change 12 Mon.
Dow Jones Industrials	29638.64	30606.48	29982.62	-2.0%	6.1%
Standard & Poor's 500	3621.63	3756.07	3714.24	-1.1%	15.2%
Nasdaq Composite	12198.74	12888.28	13070.69	1.4%	42.8%
Gold	1762.55	1887.60	1863.80	-1.3%	17.6%
Consumer price index@	260.39	260.23	260.47	0.1%	1.4%
Unemployment rate@	6.90	6.70	6.70	0.0%	91.4%

— 2nd, 3rd, 4th quarter @ — Oct, Nov, Dec Sources: *Barron's, Wall Street Journal*

4-Year Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield

February 2017 to January 2021



Past performance is not a guarantee of future results.

News and Announcements

Do You Have a Rainy Day Fund?

None of us know when a crisis is going to hit, and a job loss or sudden disability can be financially devastating. Financial professionals suggest you should have at least six months of living expenses readily available to meet urgent short-term needs.

If you haven't established a cash reserve, here are some steps you can take to build that rainy day fund:

❍ Budget a savings amount as part of your regular household expenses.

❍ Use payroll deductions so the money automatically goes into your savings account.

❍ If you get a raise or bonus, put some of it into your fund.

❍ Reduce your discretionary expenses and put it toward your fund.

❍ Consider banking earnings from investments.

❍ Set-up a money jar where change and small bills are put in at the end of each day.

❍ Open a savings account at a different institution so you are less likely to spend the money.

You'll want to make sure that your cash reserve is readily available when you need it. There are several accounts that you can use, including a traditional savings account; a money market account, which typically pays higher interest tiered by balance; and short-term certificates of deposit.

While you shouldn't consider loans as part of your cash reserve strategy, if you have an immediate cash need and don't have the funds, you can look at other sources such as an insurance policy with a cash value you can borrow from or a home equity or personal line of credit.

Please call if you'd like to discuss this in more detail. ❍❍❍

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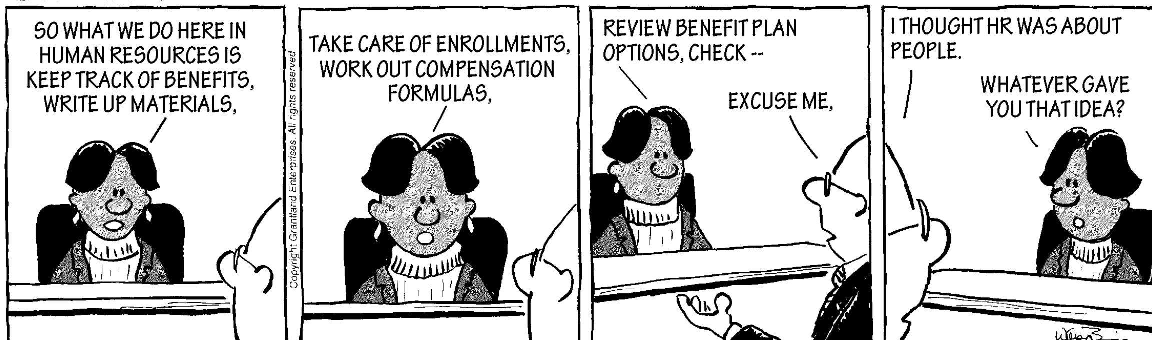

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